

Greater China Consumer and Retail Practice

How China's consumer companies managed through the COVID-19 crisis: A virtual roundtable

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About the participants



Jan Craps

Jan Craps is Zone President for Asia Pacific, AB InBev, and Chief Executive Officer & Co-Chair at Budweiser Brewing Company APAC. AB InBev is a leading premium brewer in the China beer market, and is expanding across the region after Budweiser APAC listed in Hong Kong in September 2019. After joining AB InBev in 2002, Jan relocated to Canada to lead the Quebec Sales Region, and was then appointed Head of Sales for Canada, before becoming Business Unit President in 2014. He later moved to APAC, where he served as Zone President Asia Pacific South, Member of the Executive Board of Management of AB InBev. Prior to joining AB InBev, he was a consultant in McKinsey's Brussels office.



Motonobu Miyake

Motonobu Miyake is CEO of Japanese convenience store operator Lawson (China) Holdings, where he oversees more than 2,000 stores, and is driving an expansion to 3,000 outlets this year.



Jean-Michel Moutin

Jean-Michel Moutin is Chief Operating Officer of luxury brand LVMH Perfumes for Greater China and North Asia. He has spent the past seven years in China, moving from Shanghai to Hong Kong, overseeing LVMH Perfumes & Cosmetics' business in the region from a strategic, operational, and financial perspective. Previously, he was CFO of Parfums Christian Dior, LVMH's biggest cosmetic brand. He has worked for LVMH for 25 years across Asia and Europe at the corporate, regional, and local level.



Feng Hua Song

Feng Hua Song is Vice President of Erdos Group. Erdos is the world's largest manufacturer and retailer of cashmere apparel, with five brands: 1436, Erdos, 1980, Blue ERDOS and ERDOS Kids. Erdos markets its apparel through over 500 direct stores and over 1000 franchise stores. Feng Hua Song oversees Erdos' operations including merchandising, customer relationship management, manufacturing, and supply chain operations.



Belinda Wong

Belinda Wong is Chairman and Chief Executive Officer of Starbucks China, where she oversees the company's overall business on the Chinese mainland, including driving Retail business growth through leading and strengthening the store experience, and pioneering the next wave of digital innovations for the Digital Ventures business. Wong is also a member of Starbucks global executive leadership team, contributing 20 years of experience building the Starbucks brand across China and the Asia Pacific region to the company's global strategic decision making.



Dr. Wenzhong Zhang

Dr. Wenzhong Zhang is Chairman of Beijing-based Wumart and Founder of Dmall. Wumart operates more than 1,800 fresh grocery hypermarkets and supermarkets, convenience stores, department stores, and home improvement stores in China with annual sales over 50 billion RMB. Dmall is an ecommerce and online-to-offline retail specialist that partners with more than 100 large retailers and 10,000 brick-and-mortar stores in China, and counts more than 80 million registered users and over 18 million monthly active users on its mobile app.

On March 19, China reported no new locally transmitted cases of COVID-19 for the first day since the outbreak of the virus in the Hubei province capital of Wuhan. Extraordinary containment measures limiting the movement of millions, coupled with rapid medical response, appear to have proved effective in preventing new infections.

As a result, China's economy is resuming activity after a near total shutdown. Factories are restarting production, offices are reopening, and consumers are tentatively venturing outdoors and returning to stores. As China lifts its lockdown, Europe and North America are entering their own period of uncertainty, with governments closing borders, issuing self-containment advisories, and banning public gatherings.

In this unprecedented period of transition, McKinsey's Greater China Consumer and Retail Practice conducted a virtual roundtable discussion with China-based executives at leading consumer-facing companies about their experience managing operations under lockdown. They spoke with Jan Craps, Chief Executive Officer & Co-Chair at Budweiser Brewing Company APAC; Motonobu Miyake, CEO of Lawson (China) Holdings; Jean-Michel Moutin, Asia COO at LVMH Perfumes and Cosmetics; Feng Hua Song, Vice President of Erdos Group and GM of Erdos 1436 Brand; Belinda Wong, Chairman and CEO of Starbucks China; and Dr. Wenzhong Zhang, Chairman of Wumart and Founder of Dmall.

They offer perspectives on the chief difficulties they faced, the measures that proved most successful in mitigating the human and business impacts of the virus, and how their operational emphasis shifted through the epidemic.

They agreed that creating, communicating, and delivering new business plans in an uncertain environment was among the most difficult challenges they have ever faced. Acting fast to provide protective gear and sanitizer, additional insurance, and other health-related benefits, emerged as the most effective strategic response, as this was crucial for maintaining morale.

As the crisis deepened, digital communication with employees, both of safety measures and operational changes, and messages of support to customers, became vital in keeping strategic responses on track. With stores closed, businesses doubled-down on digital initiatives, including contextualized WeChat campaigns, online-to-offline and omnichannel sales, community commerce, and pure ecommerce. When stores reopened, contactless in-store ordering systems helped customers and employees feel safe.

The respondents also said planning to immediately reopen offline stores was critical to maintaining company spirit during the crisis. Many also suggested the experience has brought their companies closer together, while accelerating transitions to digital as they bring operations back to normal.

Below is a collection of reflections about their experience working under lockdown conditions, collated in the hope that executives in other markets can better adjust to similarly testing circumstances.

McKinsey: What was the most difficult challenge you faced during the COVID-19 outbreak?

Motonobu Miyake: The biggest challenge was maintaining operations while keeping employees safe when it was unclear whether customers were infected. We hand-carried medical goggles and protective clothing from Japan as it was difficult to source these and other in-store consumables like disinfectant, masks, and non-contact temperature checking devices. Store opening conditions were also tough to coordinate as they differed by region, and according to rules imposed by the buildings in which they are housed, both of which changed frequently. We made sure staff were aware that if they acted to comply with local regulations without consulting supervisors, they would not be penalized, and that clear and

open communication about their situation was paramount. It was also a challenge to keep headquarter operations running as a result of restrictions on office working.

Belinda Wong: There was no playbook. The situation was evolving rapidly amid huge uncertainty, so we had to decide how to lead. We pivoted from opening stores – in normal business a new Starbucks store opens roughly every 15 hours in China – to proactively closing most of our 4,300 stores, and taking measures to protect our 58,000 partners (employees). That meant unwinding everything I had learned over 30 years in retail. I had to completely reset my thinking, concentrating on protecting the safety of Starbucks partners and customers.

Jean-Michel Moutin: The speed and severity of the crisis required daily immediate action either for the safety of our people, or for the continuity of our business. Fast decision making was required in a multi-brand and progressively multi-market environment, as well as crisis management for a type of crisis that was not specifically on our radar.

Jan Craps: Nightlife venue and restaurant closures cut off our usual points of contact with consumers, so the challenge was to shift resources to in-home occasions via ecommerce and omnichannel; online to offline, and community commerce. This involved realigning cross-category promotions, and launching new in-home consumer experiences like weekly DJ livestreams, and e-gaming events, while digital influencers conduct online sales. We also customized marketing around home-delivery, and linked this with our loyalty program to drive repeat purchases through the lockdown period. For social commerce, we piloted having select consumers and employees act as brand representatives and group-buying coordinators for different compounds and residential developments. Putting all this together in double-quick time under lockdown conditions was hugely challenging for all involved.

McKinsey: *In hindsight, what were the most impactful actions you took at the onset of the outbreak?*

Belinda Wong: We were among the first major brands to proactively close most of our stores, to protect our partners, customers, and society, though this quickly shifted to reactive closures. At the peak of the crisis, 80 percent of our stores were closed. For stores that remained open, protecting our partners and ensuring they felt safe drove our early decisions. Apart from securing supplies of masks and sanitizing agents, we drew up elevated store operation standards, establishing a 'safety station' at entrances to check customers' temperatures, and ensure they wear masks before entering. All partners are required to undergo daily temperature checks, and wear masks at all times, while washing their hands and sanitizing surfaces at regular intervals. We also introduced the 'Contactless Starbucks Experience' – digital ordering via mobile that minimizes human contact, and reduces the time customers have to stay in-store. Some stores continued to offer limited lobby service, with reduced seats to maintain a safe distance between individual customers.

Dr. Wenzhong Zhang: We convened our leadership every morning and evening to review procedures and progress, and published nine versions of guidelines to counter virus transmission with the result that among our 100,000 staff there have been zero infections so far. Our team traveled to South Korea to purchase facial masks, which enabled us to have the first batch delivered to Beijing on January 29, and ensure the capital did not run out of stock, despite sales of 18 million units in the first month of the outbreak. At the onset of the crisis, we supplied up to 90 percent of the masks sold in Beijing, in the process helping minimize virus transmission in the city. We also tripled supplies of fresh vegetables and meat to Beijing to make sure the city did not run out, and donated food and other supplies to hospitals and communities in Wuhan.

Jan Craps: Leveraging our global procurement network to source protective gear and masks for all our 26,000 employees. We launched digital employee health tracking and support, complemented by hygiene and health training, and measures to disinfect breweries and offices. We offered cashflow

support to our wholesalers, and provided retailers with toolkits including masks, gloves, and sanitizers so they could reopen. We also defined seven-day, 30-day, and 100-day action plans, starting with a war room focused on employee welfare and social responsibility, including donations of protective gear. The 30-day plan aimed to reshape the business and resume operations, while the 100-day plan seeks to grow the China business post-crisis. Big data allowed us to differentiate the speed and level of our investment by channel and region, while monitoring progress on a city by city basis.

Jean-Michel Moutin: Protecting the safety of our staff was paramount. We defined safety measures, and in less than 10 days put in place a full supply chain to source and dispatch hundreds of thousands of masks to our staff all over Asia, in the field and at the office. That required an unprecedented degree of coordination between human resources and logistics staff. We then acted to preserve the business by focusing on ecommerce while managing a supporting supply chain, and organizing new ways for our office staff to work from home.

Feng Hua Song: Responding quickly and maintaining a strong relationship with customers and staff. We rapidly distributed masks to employees, and 500 VIP customers, along with a goodwill message. This might seem like a small gesture, but it helped instill confidence in our organizational stability, and was deeply appreciated by customers. Fast and effective communication was essential, so we prioritized sending a letter to all our staff emphasizing that the company would be there to support them. Once we had dealt with the fundamentals, we formed a dedicated team to accelerate development of our online business, as we knew offline would be hit hard. We used WeChat to ensure our customers and staff, which was larger than usual because of Chinese New Year sales, were kept up to date. Later, we successfully launched a Valentine's Day WeChat campaign with the "love is the cure" slogan that helped drive online sales of new apparel lines.

On January 26, Erdos also restarted our cashmere coat factory, purchased materials from around the country, and converted production to manufacture protective masks and clothing. We also instituted professional disinfection and sterilization procedures that helped bring the epidemic under control in Inner Mongolia. On the same day, the Chairman of the Board of Directors of the Group personally called the President of Mitsui Corporation in Japan, drawing on a partnership built up over several years, and asked for help with the purchase of professional protective materials from around the world. From February 5, materials worth over 20 million RMB flowed into the country and onto the front lines of the fight against the epidemic. On February 9, we donated 8 million RMB to the Song Qingling Foundation to establish the "Erdos Warmth Fund" to care for and support frontline medical staff and their families.

McKinsey: *Is there any major difference in your actions and focus in the first two-three weeks of the outbreak compared with more recently as things have started to stabilize/recover?*

Jean-Michel Moutin: Our first weeks focused on immediate decision making to preserve employees' safety, and the continuity of our retail business and supply chain. Now, we are working on managing the recovery in China, with progressive reopening of our retail network, and preparing for the rebound. We are also analyzing the medium-term consequences of a worldwide outbreak, with an economic and financial crisis following in its wake. This will likely be combined with accelerated changes in our Chinese consumers' habits, like moving even faster than expected to digital and ecommerce, while reducing their travel abroad for at least a few months. Focusing on crisis management does not mean that you have to give up long-term perspective and strategic capability building, especially in a market as important as China. Finally, in the last week, we have leveraged our China supply chain to secure orders for 40 million surgical masks, with the intention of distributing these to the French national health service.

Belinda Wong: Early on, we committed to paying partners even when our stores were closed, stepped up insurance benefits in the event that partners or their family members contracted the virus, and launched a Partner Assistance Program (PAP) to give counseling to partners and their families, with costs

borne by the company. As the situation evolved, we shifted focus to reopening, which was critical not just for the business but also for company spirit. We started planning to reopen while store closures were still growing, prioritizing our partners to ensure they were safe and confident in their working environment. Now, over 90 percent of our stores have reopened.

Dr. Wenzhong Zhang: In the early days of the crisis, we concentrated on meeting demand for fresh and staple foods, as well as protective gear. There was enormous demand for home delivery, and contactless pick-up. We set up about 3,000 online-to-offline community pick-up stations, which covered more than half the 4,000 communities in Beijing. These played a significant role in keeping the city supplied as it was going under quarantine, and attracted strong mobile orders in the first 10 days. We expect this model to continue growing strongly even now that the virus situation has come under control.

Motonobu Miyake: In early January, we did not yet feel a sense of crisis, and it was only on January 20 that travel to Wuhan was restricted. After the city was blockaded, we web-conferenced a leadership meeting involving Chinese management who had experienced the Severe Acute Respiratory Syndrome (SARS) epidemic. They drafted advice on what the likely government regulatory response would be, and we delivered this across the regions, while adjusting opening procedures to keep employees safe. We also procured extra store consumables – particularly masks and cup noodles. As the crisis evolved, the government or host building instructed us to close stores to prevent new infections. We then reviewed our manufacturing processes and made volume adjustments based on the principle of safety first; we were concerned that factories facing staff shortages, and under pressure to meet emergency orders, might take shortcuts on hygiene, and so reduced our orders in line. We also looked into emergency financing in case we had funding difficulties. Right now, store supplies of consumables are almost back to normal, with relatively few shortages, and we aim to normalize headquarters and store operations. Our biggest task is to rescue the franchisee stores who have suffered economic distress.

Feng Hua Song: The biggest difference is in the mentality of the organization, which shifted from being unsettled to one of confidence after our response became clear, and people came to terms with ex-office work routines. Once the situation was under control, we shifted to strategic planning; looking at ordering remotely for the next season. We also began to work on revised three-year plans that included much more aggressive omnichannel targets, transforming our supply chain to be more agile, and other strategic moves to grow the business.

Jan Craps: In the first few weeks, our focus was employee safety and preparing to resume commercial and supply chain operations. More recently, we have returned to growth mode; developing new consumer trends, and accelerating existing trends like premiumization, and digital trade.

McKinsey: *If you had one piece of advice for companies around the world battling COVID-19 under lockdown conditions, what would it be?*

Jean-Michel Moutin: Dare and care. Dare to take quick decisions through a crisis management team properly empowered to preserve business continuity. Care about your team, always putting people first in terms of health and financial security both on the frontline and in the back-office to guarantee service continuity. It is important to make sure your teams feel supported by management. A combination of managerial courage, teamwork, and strong resilience is required. As Nelson Mandela said: "May your choices reflect your hopes, not your fears".

Dr. Wenzhong Zhang: We believe the coronavirus crisis has brought forward the timeline for adoption of omnichannel grocery services, such as remote ordering and pick-up, by at least one year. Keeping track of how online ordering preferences change under lockdown is also essential; customers sought to vary their diet across a balance of ready meals and home-cooking, and there were significant shifts among top-selling brands.

Motonobu Miyake: Assuming a prolonged lockdown, the first step is to keep employees safe, and prepare for reopening. A company cannot survive if it is closed forever, and there is tremendous value in empowering staff with the message that their work is essential to life returning to normal. Those in a position to do so should offer support to medical institutions.

Jan Craps: Empower regional teams to deliver within guardrails based on best practice and non-negotiables like safety, quality, and business protection. Give more flexibility and autonomy to frontline teams to react rapidly, given the situation can be very different city-by-city and channel-by-channel. Crisis-hit consumers are shifting towards more home-cooking and looking for innovative forms of in-home entertainment, while demonstrating increased preparedness to trade up, opening opportunity for agile businesses to meet evolving consumer demands.

Feng Hua Song: Though in physical lockdown, it is important not to panic, and focus on organizing a response. In the digital age, a strong organization should always be connected, and we have realized that many roles do not require face-to-face interactions. The leadership group must act calmly to maintain the confidence of employees, as this is key to holding the company together. If all goes well, a more tightly knit organization will emerge from the crisis.

Belinda Wong: I remembered how Howard Schultz (Starbucks founder and chairman emeritus) used to say that not every decision is an economic one. That has stuck with me, and in the current crisis, it helped me understand what I needed to do. I fell back on the fundamental principle - what is the right thing to do for our partners, customers, and the country? In times of extreme ambiguity, our values can provide much-needed clarity and guidance.

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